

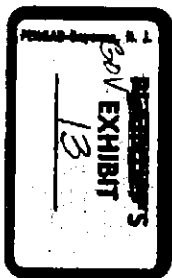
*MasterCard  
International*



# GLOBAL COMPETITIVE OVERVIEW

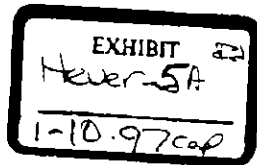
P-0290

GOVERNMENT  
DEPOSITION  
EXHIBIT  
745



Franchise Management  
June 4, 1996

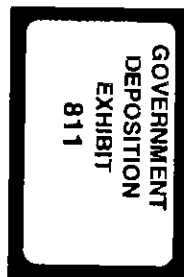
MC 94781



*MasterCard  
International*



# GLOBAL COMPETITIVE OVERVIEW



Franchise Management  
June 4, 1996

MC 84781



# OBJECTIVE

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- To assess the nature and magnitude of the competitive threat to MasterCard presented by AMEX's recent moves
- To determine what actions are appropriate to address the threats posed by AMEX and some or all other competitors such as Discover, JCB, Diners Club and Visa
- To recommend rules and/or policy options
- To develop "winning" products and services



# COMPETITIVE ISSUES SUMMARY

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- AMEX has its issues - success is not assured
- No upside to MasterCard in allowing members to offer competing card lines
  - Probability is loss of member dedication while AMEX strategy plays out
- Can Visa stop members dealing with competitors?



# COMPETITIVE ISSUES SUMMARY

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- No takers yet in US despite AMEX efforts
- Response should be firm, but not give AMEX threat too much credence
- Should protect the MasterCard brand but disassociate from Visa/AMEX feud



# MASTERCARD OPTIONS

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## OPTION

1. Allow issuance of competing card lines

## DISCUSSION

- Likely to be required in Europe
- In other regions, MasterCard will be covered in most cases where Visa prohibits
  - Could lose share of MasterCard only portfolios



# MASTERCARD OPTIONS

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## OPTION

2.Restrict members to MasterCard/VISA duality

## DISCUSSION

- Not feasible in Europe
- It could have strong political repercussions
- Probably have to extend to all competitor cards
- Have to grandfather 31 members who issue competitor cards



# MASTERCARD OPTIONS

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## OPTIONS

3. Require a % MasterCard share of portfolio, e.g., 80% or percentage share of future card acquisition, e.g., 90%

## DISCUSSION

- Positive positioning for MasterCard with potential for growth
- Hard to justify when Visa prohibits:
  - only eligible to non VISA issuers
  - only impacts MasterCard
  - Unlikely to engender VISA portfolio switches





# MASTERCARD OPTIONS

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## OPTION

4. Increase MasterCard member interchange for all or select products

## DISCUSSION

- Could result in PR issues - “Boston Fee Party”
- Enhances issuers’ profitability, but could hinder MasterCard efforts to open new acceptance categories
- Purpose of interchange is not to “promote” products with incentive pricing
- Compromises value pricing

# MASTERCARD OPTIONS

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## OPTION

5. Change assessments based on number of competing cardlines, e.g.,

- MasterCard only = decreased assessments;
- V+M = current pricing;
- V+M+AMEX = increased assessments

## DISCUSSION

- Rationale is that the “dual exclusive” distribution system, is weakened by members/distributors who are less dedicated to developing the brand in which other members have invested. So MasterCard would require higher assessments to offset the cost of less efficient/dedicated distributors



# MASTERCARD OPTIONS

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OPTION	DISCUSSION
6.Brand Development fees	<ul style="list-style-type: none"><li>• More flexible/negotiable than assessments:<ul style="list-style-type: none"><li>– Based on number of competing product lines</li><li>– Vary fees based on whether it is AMEX, Diners Club, DISCOVER or JCB</li><li>– Could grandfather or give conversion timetable to preexisting programs</li></ul></li></ul>

# MASTERCARD OPTIONS

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OPTION	DISCUSSION
7. Prohibit members from “exclusive arrangements”	<ul style="list-style-type: none"><li data-bbox="1089 646 1887 1003">• AMEX international expansion strategy has been to grant one bank in each country an exclusive franchise</li><li data-bbox="1089 1036 1887 1468">• All MasterCard members should be able to compete on a “level playing field.” Exclusives unfairly disadvantage other members</li></ul>

# MASTERCARD OPTIONS

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## Summary

- 1.Allow issuance of competing card lines
- 2.Restrict members to MasterCard/Visa duality
- 3.Require a % MCI Share of Portfolio, e.g., MCI=80%
- 4.Increase interchange for all or select products
- 5.Change assessments based on number of competing cardlines
- 6.Brand Development fees
- 7.Prohibit members from “exclusive arrangements”



# MASTERCARD OPTIONS SUMMARY

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- The first three options have a Visa “WildCard” component in that the ramifications are partially determined by Visa
- Allowing issuance and requiring duality are probably too weak and too strong respectively
- Rationale behind requiring higher fees from those who weaken distribution network



# MASTERCARD OPTIONS SUMMARY

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- It is probably better to 'tax' distributors of competing card lines directly rather than bundle 'tax' into assessment structure
- Honor system of assessment structure would not be optimal for non MasterCard transactions
- Prohibition of exclusives consistent with members competing on an equal footing



# RECOMMENDATIONS

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- Brand Development Fee for all non-Visa competing card lines:
  - Annual fee will vary by product line
  - Fee to be tiered by product portfolio size
  - 20% discount for majority MasterCard portfolio





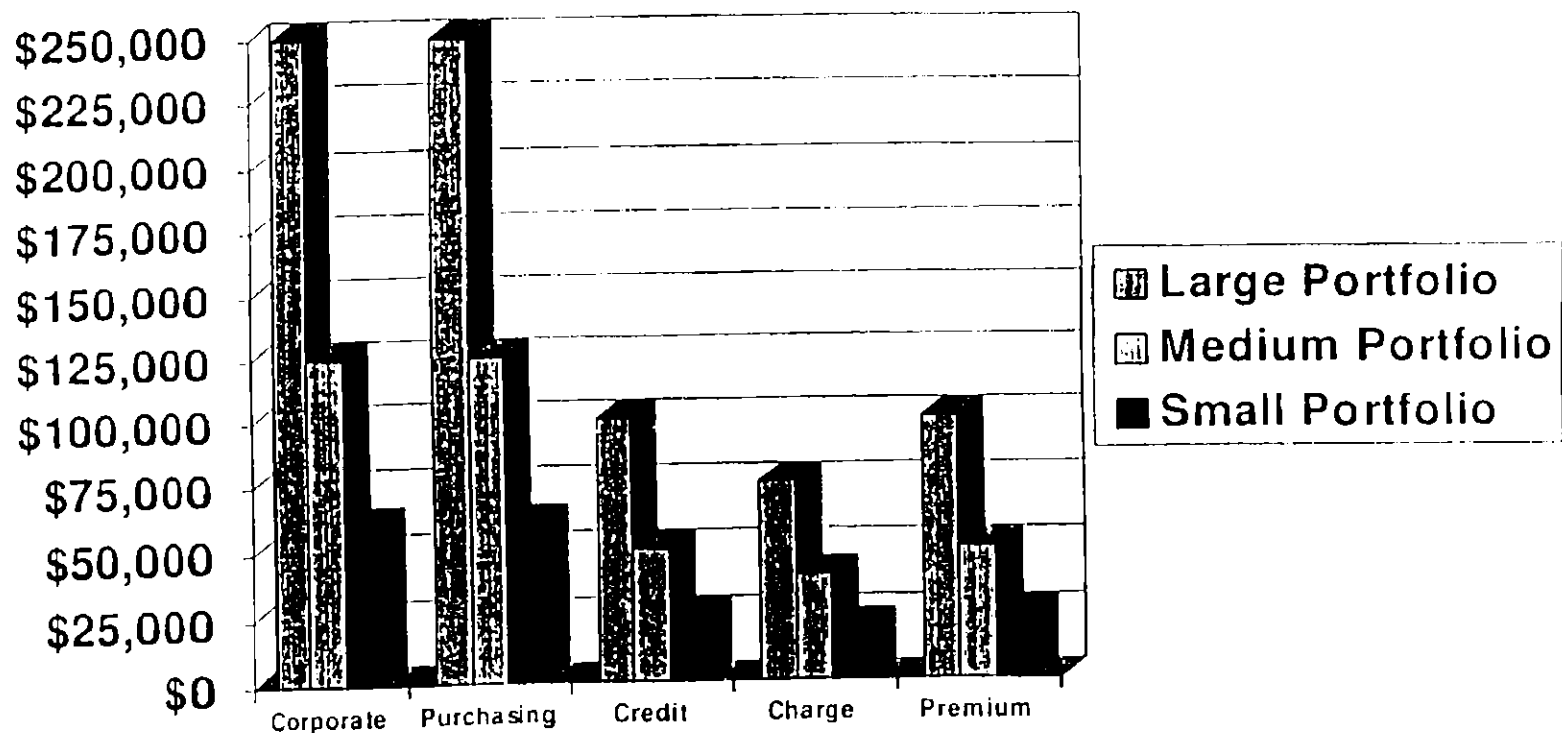
# RECOMMENDATION

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- Fee methodology to be global
- Fee can be determined by Region
- No competitor exclusive relationships or franchises

# RECOMMENDATIONS

## Brand Development Fees





# RECOMMENDED RULES

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- 1.No member may enter into an exclusive arrangement with any competing card line that is not available to all other MasterCard members on substantially equal terms



# RECOMMENDED RULES

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2. Member must advise MasterCard of any formalized arrangement to issue or acquire any competing card line, other than Visa, including the product to be issued
3. Any member who issues any competing card line other than Visa will be subject to a brand development fee. This fee applies whether the card(s) are issued directly or indirectly by the member, its parent, subsidiary or affiliate



# RECOMMENDED RULES

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4. The brand development fee will be established annually by product line by the MasterCard Regional Boards



# RECOMMENDED STANDARDS

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- Change “Standards For Use of The MasterCard Brand in Member Communications” to regulate the promotion and advertising of AMEX and competing card lines



# RECOMMENDED STANDARDS

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## Standard A4

The MasterCard brand name must be used whenever a reference is made to merchant acceptance of MasterCard products. MasterCard merchant acceptance may not be attributed to any other brand\*

\*Changes or additions underlined



# RECOMMENDED STANDARDS

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## Standard C2

Competing payment or acceptance brands may not be positioned as offering superior utility, functionality, or acceptance relative to the MasterCard brand\*

\*Changes or additions underlined